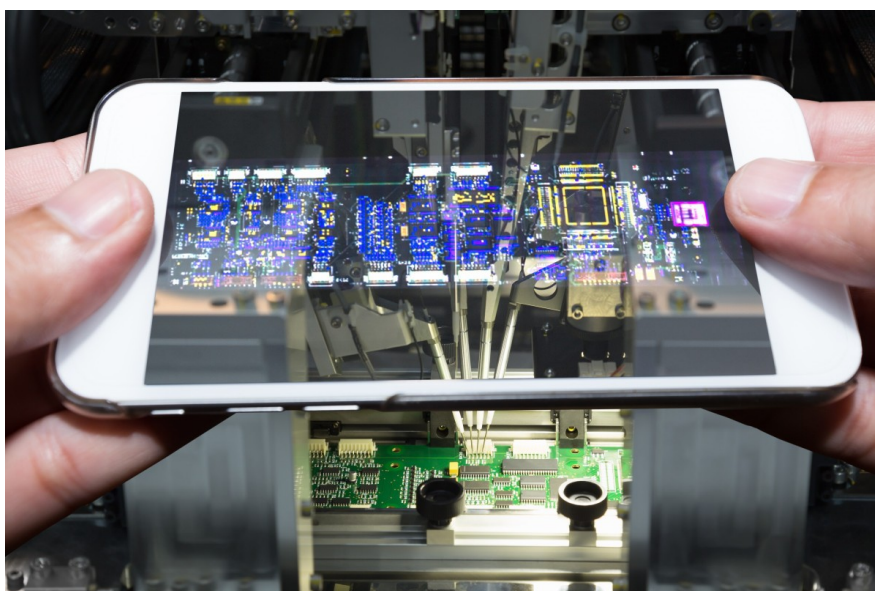


Taiwan: Industrial production bounce but chip shortage risk remains

Industrial production jumped in March from a year ago, partly as activity increased to match chip demand and partly due to the Chinese New Year in February which squeezed some production activity into March. Looking forward, the key risk surrounds water shortages, which have affected semiconductor production



Source: Shutterstock

Manufacturing bounced back in March

Industrial production jumped 16.78% year-on-year in March, which is a result of several factors, including high demand for semiconductor chips due to global chip shortages and the Chinese New Year holiday in February, which pushed some production into March.

Key risk on chip production remains - water shortages

But the question is whether this strong growth can last for the rest of the year due to water shortages in Taiwan, which have affected semiconductor production.

Despite [a media report](#) that the biggest Taiwan semiconductor company is building a plant to

reuse water as a long term solution for any water shortages that Taiwan may face in the future, the short term difficulty of getting water for semiconductor production remains, even though these producers are using underground water as a temporary solution and the government has limited household use of water around factory locations.

This risk is not small.

Global semiconductor chip prices could be pushed up if chip shortages remain.

Taiwan export orders grew 33.3% YoY in March. This sounds great. But when we look more closely at the export data, we discover that the gap between orders and exports has widened from \$11bn a month in March 2020 to \$17bn in March 2021. This gap reflects the export orders Taiwanese companies have received from buyers that do not produce in Taiwan and therefore do not export from Taiwan but from other economies, e.g. Mainland China, where Taiwanese semiconductor companies have factories.

That means Taiwan's water shortages will continue to result in flows of production activities away from Taiwan to other economies.

The technology war between the US and China means that this could create extra risks for Taiwanese semiconductor companies if more chip production is moved to Mainland China.

Forecast

Taiwan 1Q21 GDP will be released on 30 April. We expect growth of 5.5% YoY.

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